



SPECIAL REVIEW
OF
HARRIS-STOWE STATE COLLEGE

**From The Office Of State Auditor
Claire McCaskill**

Report No. 99-33
May 12, 1999

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

Audit Report # 99-33 May 12, 1999

The following findings are some of the problems discovered after our office conducted an audit of Harris-Stowe College in St. Louis.

Harris-Stowe has hired consultants to perform various professional services for the institution. Our review of these consulting expenditures disclosed various concerns regarding the procurement and documentation of these services.

For example, for several years Harris-Stowe has contracted with three former employees to provide consulting services. The related expenditures totaled \$101,500 during fiscal year 1997 and the first half of fiscal year 1998. Two of these consultants write grant proposals and advise on various programs. The other individual serves as the College's Executive Institutional Consultant. For 1997 and prior, the College contracted with these three people without soliciting bids for the services as required. When the College realized these services should be bid, a Request for Proposals (RFP) for each of these services was prepared in fiscal year 1998.

The RFPs included restrictive qualifications and it appears they were written to mirror the three consultants' qualifications. One such restrictive qualification was that the person had to have "six years of successful administration of Harris-Stowe's Title III-B program". The manner in which these professional services were procured had the effect of compromising the intent of the bidding process and may have unfairly prevented other possible consultants from being considered.

The State Auditor recommended Harris-Stowe ensure consulting services are competitively bid in accordance with state purchasing guidelines, and that the procurement process is handled in a manner consistent with the intent of the law.

For a number of years, the College President's compensation package has included specified amounts for a tax sheltered annuity and a housing allowance. The College did not adequately oversee, properly account for and correctly report these fringe benefits for tax purposes for the tax years 1992 through 1995. Because it was Harris-Stowe's Board of Regents' intent that these benefits be tax free to the President, in 1996 the College paid the President additional "grossed-up" compensation totaling \$192,839 to cover the related income tax liability. This amount included \$21,088 in interest charges. As a result, the College incurred additional expenditures of at least \$21,088.

The President is now responsible for paying the applicable taxes on his benefits.

Despite the tax reporting problems discovered and corrected for 1995 and prior, we also noted additional problems in accounting for and reporting fringe benefits of the President in 1996 and 1997. Also in fiscal year 1997, the College provided \$100,000 more in life insurance coverage for the President than the amount authorized by the Board of Regents. The State Auditor has recommended specific improvements in the administration of compensation issues.

The College has established a five year master plan for campus expansion, which includes the design and construction of six new buildings on campus. Concerns were noted regarding the manner in which the College procured the design and construction management services related to the first of these new buildings, a new library/technology center building.

The College needs to improve documentation regarding the architectural firms considered for design services, and ensure a written description of the scope of the services is prepared as required by state law. The cost of the design services was approximately \$175,000. In addition, the College did not advertise for proposals regarding construction management services (costing approximately \$83,500) as required by state law, instead these services were negotiated with the firm which designed the building.

The College provides various insurance benefits for its employees. Our review of the College's handling of these benefits disclosed various problems. For example, the College did not reconcile billing statements and eligibility lists from its medical insurance carriers to appropriate personnel and payroll records on a periodic basis. This resulted in the College paying premiums for employees who no longer worked for Harris-Stowe.

Insurance premiums are not always paid on a timely basis. As of April 1998, some premiums had not been paid since December 1997. Furthermore, in early 1997, the College quoted the wrong premium rate to employees and the College paid an additional \$16,700 from College funds making up for the mistake. Harris-Stowe needs to improve its control over its employee insurance programs.

Other findings included:

- C Harris-Stowe's competitive bid requirements for purchases over \$3,000 were not always followed.
- C Harris Stowe has not solicited bids for its checking and depository services, nor have policies and procedures been established for the type of investments and bank accounts used by the College.
- C The controls over the bank accounts, insufficient funds checks, and electronic transfers between bank accounts need to be improved.

Harris-Stowe agrees with the majority of the State Auditor's findings and is implementing the Auditor's recommendations.

SPECIAL REVIEW OF
HARRIS-STOWE STATE COLLEGE

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-3
<u>MANAGEMENT ADVISORY REPORT SECTION</u>	
Management Advisory Report - State Auditor's Current Recommendations	5-43
Summary of Findings.....	6-8
<u>Number</u>	<u>Description</u>
1.	Payroll and Fringe Benefits Reporting.....9
2.	Consulting Services13
3.	Design and Construction Management Services17
4.	Expenditures18
5.	Cash Management.....21
6.	Employee Benefits26
7.	Accounts Receivable.....29
8.	Accounting System and Controls.....31
9.	Payroll and Personnel Matters35
10.	Food Service Contract.....39
11.	Cellular Phones40
12.	Fixed Assets41
<u>STATISTICAL SECTION</u>	
History, Organization, and Statistical Information	45-48

STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Mel Carnahan, Governor
and
Board of Regents
and
Dr. Henry Givens, Jr., President
Harris-Stowe State College
St. Louis, Missouri 63103

We have conducted a special review of Harris-Stowe State College. The objectives of this review were to:

1. Review and evaluate selected College personnel practices and procedures.
2. Review and evaluate certain College purchasing practices and procedures.
3. Review certain internal control procedures, legal compliance issues, and management practices to determine the propriety, efficiency and effectiveness of those procedures and practices.

Our review was made in accordance with applicable generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. For the year ended June 30, 1997, Harris-Stowe State College engaged KPMG Peat Marwick, Certified Public Accountants, to perform the annual audit of the College. Prior to fiscal year 1997, annual audits of the College were performed by Sailor, Khan and Company, Certified Public Accountants. To minimize any duplication of effort, we reviewed the audit reports and letters to management of these firms. We also reviewed budgetary and planning records, policies, and expenditure records. Our review included, but was not necessarily limited to the policies, practices, and transactions of fiscal year 1997, and the period from July 1, 1997, to December 31, 1997.

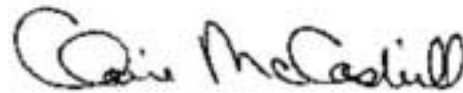
As part of our review, we assessed the College's management controls to the extent we determined necessary to evaluate the specific matters described above and not to provide assurance on those controls. With respect to management controls, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation and we assessed control risk. In order to assess control risk, we performed tests of controls to obtain evidence regarding the effectiveness of the design and operation of certain policies and procedures. For the purpose of this review, we have classified the management controls as purchasing and accounts

payable, cash and accounts receivable, facilities planning operations, personnel, contracts, and safeguarding resources.

Our review was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying History, Organization, and Statistical Information are presented for informational purposes. This information was obtained from the College's management and was not subjected to the procedures applied in the review of Harris-Stowe State College.

The accompanying Management Advisory Report presents our findings and recommendations arising from our review of Harris-Stowe State College.

A handwritten signature in dark ink, appearing to read "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill
State Auditor

May 21, 1998 (fieldwork completion date)

MANAGEMENT ADVISORY REPORT SECTION

**Management Advisory Report -
State Auditor's Current Recommendations**

SPECIAL REVIEW OF HARRIS-STOWE STATE COLLEGE
SUMMARY OF FINDINGS

1. Payroll and Fringe Benefits Reporting (pages 9-13)

In 1995, instances of malfeasance were discovered involving two employees in the Comptroller's Office. Although the College has made changes in policies and procedures, various weaknesses were still noted in the controls over the payroll and personnel system.

The College did not adequately oversee, properly account for and correctly report the President's fringe benefits for tax purposes for the tax years 1992 through 1995. As a result, the College incurred additional expenditures of at least \$21,088. We also noted additional problems in accounting for and reporting fringe benefits in 1996 and 1997.

2. Consulting Services (pages 13-16)

The College did not properly solicit competitive bids for consulting services provided by three former employees. Adequate documentation to support the evaluation and selection process for consultants was not always retained. The College sometimes pays bills for consulting services when adequate supporting documentation has not been submitted. The College's Executive Institutional Consultant sometimes approved payroll authorization forms and certain other expenses on behalf of the President.

3. Design and Construction Management Services (pages 17-18)

The College did not maintain adequate documentation regarding the architectural firms considered for the design services related to the first of six buildings to be constructed during the campus expansion. All information submitted were not maintained nor was a written description of the scope of services prepared. The College did not advertise for construction management services related to this building as required.

4. Expenditures (pages 18-21)

The College's competitive bid requirements for purchases over \$3,000 were not always followed. The College needs to improve its controls over the review, approval, and payment of expenses. The College needs to look for ways to reduce its overall food costs. The College needs to develop policies or tighten controls over memberships and telephone calling cards. Some expenditures noted may not be a prudent, reasonable, or necessary use of College funds.

5. Cash Management (pages 21-26)

The College has not solicited bids for its checking and depositary services, nor have policies and procedures been established for the type of investments and bank accounts used by the College. The controls over the bank accounts, insufficient funds checks, and electronic transfers between bank accounts need to be improved.

6. Employee Benefits (pages 26-29)

The College does not reconcile billing statements and eligibility lists from its medical insurance carriers to appropriate personnel and payroll records on a periodic basis. Insurance premiums are not always paid on a timely basis. In early 1997, the College quoted the wrong premium rate to employees and the College paid an additional \$16,700 from College funds when it elected to absorb the difference between the quoted and actual rate. The College needs to improve its control over the group life, accidental death/dismemberment, and long-term insurance program.

7. Accounts Receivable (pages 29-31)

Emergency loans made to students are not administered in accordance with College policy. Monthly reconciliations between the subsidiary ledgers and the general ledger accounts are not performed. The College should reevaluate the policy of allowing payroll advances to employees.

8. Accounting System and Controls (pages 31-34)

The College has not developed a policies and procedures manual for the accounting system, and the accounting staff did not appear to be properly trained and supervised. Access to the accounting system needs to be restricted. Forms W-2 are prepared based on an employee identification number rather than the employee's social security number. We noted various errors on the 1997 Forms 1099 MISC. Many expenditures were not coded correctly. An excessive number of employees have the capability to add vendors to the accounts payable system and to add account numbers to the Chart of Accounts. In addition, the vendor file has numerous duplicate vendors.

9. Payroll and Personnel Matters (pages 35-38)

The College needs to establish written job descriptions for its academic and non-academic positions and establish pay grade and/or salary range schedules for its employees. Personnel information related to individual employees was not always complete. A number of errors were noted in the employee leave records. The final payroll check to terminated employees was not always the proper amount or supported by adequate documentation. The College paid severance pay and unemployment benefits for two employees who left employment with the College under unfavorable circumstances. Performance appraisals were not prepared in accordance with College policy. The College's outside employment policy and employment contracts with the academic staff are in conflict with each other. Policies and procedures are not updated timely and changes are not distributed to all employees.

10. Food Service Contract (pages 39-40)

The College needs to improve its control and oversight over the food service operations and ensure any food service provider is required to comply with all contractual provisions.

11. Cellular Phones (pages 40-41)

The College needs to develop a formal written policy regarding the use of cellular phones. Cellular phone bills were not reviewed and authorized before payment and were not paid on a timely basis.

12. Fixed Assets (pages 41-43)

Deficiencies were noted in the College's fixed asset records and procedures. In addition, the College should ensure there is a valid reason for equipment items to be checked out for an extended period of time.

SPECIAL REVIEW OF HARRIS-STOWE STATE COLLEGE
MANAGEMENT ADVISORY REPORT-
STATE AUDITOR'S CURRENT RECOMMENDATIONS

1.	Payroll and Fringe Benefits Reporting
-----------	--

- A. In 1995, the College President appointed a committee to investigate certain allegations related to the Comptroller's Office which had been brought to his attention. In September 1995, the committee reported various instances of malfeasance involving the Comptroller and a payroll clerk.

The College referred this matter to various federal agencies for further investigation, including law enforcement agencies. The College terminated the employment of these two individuals in December 1995. In November 1996, the former payroll clerk was ordered to make restitution of \$4,254 to the College. In February 1997, the former Comptroller was indicted on charges of tax evasion and making false statements on a federal student aid application.

Although the College has made changes in the policies and procedures in the Comptroller's Office since that time, we still noted various weaknesses in the controls over the payroll and personnel system, as noted later in this report. The College should periodically review its policies and procedures over the payroll and personnel functions to ensure improper activity like that described above does not reoccur.

- B. For a number of years, the College President's compensation package has included a base salary and fringe benefits which have included specified amounts for a tax sheltered annuity and a housing allowance. The College also has paid premiums for life insurance, spouse medical coverage and long-term care coverage, and has furnished the President an automobile. During our review, we noted that the College did not adequately oversee, properly account for, and correctly report the President's fringe benefits for tax purposes as follows:

- 1) In 1996, the College determined the taxable value of the fringe benefits provided to the President in previous years had not been reported as required to the Internal Revenue Service (IRS) and state and local tax authorities, and applicable payroll taxes had not been withheld. It appears this situation was identified during the investigation of the problems noted in part A, above. Subsequently, the College worked with the IRS to determine the tax liability.

Since the income tax implications of these fringe benefits were not documented at the time they were provided, the Board of Regents conferred with various current and former board members and it was the recollection of these individuals that the board's intention was that these benefits were to be tax free to the President. Therefore, the Board of Regents decided the College would be liable for the tax liability for 1992 through 1995. To pay this liability, the College paid the President additional "grossed-up"

compensation totaling \$192,839 in 1996. This amount represents the initial income tax liability plus an additional amount to cover the increased tax liability on the reimbursed income tax liability.

As a result of this situation, the College incurred additional expenditures of at least \$21,088, the estimated interest portion of the tax liability. It should be noted that correspondence in August 1989 from the College's auditors indicated the tax implications of a housing allowance and tax sheltered annuity had been researched and the auditors had concluded that it appeared these benefits should be included in gross income and subject to taxation. It appears the College did not follow the advice of their auditors in the proper handling of these benefits.

- 2) For 1996 and subsequent years, the Board of Regents decided the President would be liable for the applicable taxes on his fringe benefits. Despite the problems noted above which the College identified and corrected in 1996, our review of Forms W-2 and 1099 issued by the College for 1997 and 1996 disclosed additional problems as follows:

- a) In 1997, the College did not correctly calculate the cost of life insurance furnished the President by the College for coverage of more than \$50,000. Under Internal Revenue Code Section 79(a), the cost of employer-provided group-term life insurance coverage greater than \$50,000 is to be included in the employee's gross income, should be reported as compensation on the employee's W-2, and be subject to social security and Medicare tax. The College initially reported the taxable cost of excess group-term coverage for the President as \$527. The proper amount was actually \$4,914.

The College reported the value of this life insurance benefit to the state's Office of Administration (OA), and OA included this amount on the President's W-2 issued by the state. When we reviewed this calculation, we determined the value of the life insurance reported did not include all months the life insurance was in effect. After we brought this matter to the attention of College personnel, the College sent corrected information to OA, and OA issued a revised 1997 W-2 for the President.

It should be noted that this situation also applied to various other College employees, with the amount of compensation initially underreported for those individuals ranging from \$1 to \$333.

- b) In 1996, the Form 1099 issued for the President's fringe benefits did not include the value of the automobile furnished by the College. While we did not calculate the amount compensation was underreported in 1996 as a result of this situation, the value of the automobile furnished to the President in 1997 as determined by the College was \$1,628.

- 3) In fiscal year 1997, the College provided \$100,000 more in life insurance coverage for the President than the amount authorized by the Board of Regents. The Board of Regents had approved life insurance coverage of \$300,000 for that fiscal year, while coverage of \$400,000 was actually provided by the College.

For a number of years, the College has carried a separate \$100,000 life insurance policy for the President. The College provided the remainder of the life insurance coverage for the President through its group-term insurance program for all employees. In 1997, the College did not consider the \$100,000 policy in the insurance being provided the President, and paid the entire approved amount of life insurance for the President through the program for all employees. As a result of this situation, the College incurred excess costs for insurance premiums related to the President's insurance coverage.

The Vice-President of Business and Financial Affairs corrected this situation in 1998, after we began reviewing this area.

WE RECOMMEND the College:

- A. Periodically review its policies and procedures over the payroll and personnel functions to ensure controls are adequate and that improper payroll activities do not occur without being detected.
- B.1
&2. Ensure all provisions of compensation packages are adequately documented and the tax liabilities and reporting requirements related to fringe benefits provided to all employees are handled and accounted for properly. In addition, the College should consider the advice of its auditors and other professionals and ensure pertinent information is considered and discussed with the Board of Regents, as needed and on a timely basis.
3. Ensure the benefits being provided the President are in accordance with the compensation package authorized by the Board of Regents.

AUDITEE'S RESPONSE

- A. *The test of an institution's commitment to safeguard public funds is its ability to identify problems and take corrective action. Although no institution is immune from wrongful conduct by an individual employee, the institution must be vigilant to limit any potential loss of public funds. The Board of Regents of Harris-Stowe State College ("College") is pleased that the Office of the State Auditor ("Auditor") recognized the College's actions in investigating the misconduct of two employees in the Comptroller's Office two years prior to the state's audit of the College. The College's investigation resulted in the termination of both employees and contributed to their successful prosecution. The prompt actions of Dr. Henry Givens, President of the College, avoided any financial loss to the College. The College's remedial actions did not, however, end with the removal of two employees. Rather, at the direction of the Board of Regents and under the direction of Dr. Givens, the College*

reviewed its accounting and business practices, and the staffing of its financial departments. As the College pursued its expanding mission, it became even more imperative to employ professionals who would guarantee an efficient and safe handling of its funds. These efforts were initiated, and in large part completed, prior to the state's audit.

These prospective actions included, but were not limited to, retention of a new Vice President of Business and Financial Affairs, Rochelle Tilghman. Ms. Tilghman is a licensed certified public accountant possessing a Masters of Science degree in taxation. Her experience includes over twenty years of fiscal experience in local, state and federal environments. In addition, in 1998, the College hired a new Comptroller, Constance Bowman, who is responsible for monitoring the internal controls put in place to safeguard college funds. Ms. Bowman is a licensed certified public accountant with over ten years experience in the fiscal arena, including internal and external auditing, as well as management consulting for governmental agencies and not-for-profit organizations. Moreover, in 1996, the Board of Regents replaced its former external auditors with KPMG Peat Marwick, L.L.P. Since 1996, the College has received two unqualified opinions from KPMG. The Board of Regents believes that this team of internal professionals and external auditors will guarantee that college funds are fully utilized in carrying out the College's mission of providing the highest quality education to its students.

The College accepts the Auditor's recommendation and already has in place a procedure to monitor its payroll and personnel functions.

- B. The presidents of each state college and university are provided with a residence without tax consequences or with a commensurate housing allowance. In the early years of Harris-Stowe, there were simply no funds available to provide Dr. Givens a residence on the College's campus. In recent years, the College has undergone a broad building program to provide classroom space for its expanding student programs. It was and is Dr. Givens' preference that all available funds be dedicated to student needs and not diverted to building the president a home. Acting under advice of outside professionals, the Regents provided Dr. Givens with a housing allowance intending it to be a tax-free benefit. Indeed, had the College built the president a home on campus, his housing would have been tax-free.*

As noted by the Auditor's office, the College did not learn of the tax consequences attached to its provision of a housing allowance until early 1996. A memorandum from its external auditor in 1989 suggested there may be such tax consequences. However, this memorandum was provided to the College's Vice President for Business and Financial Affairs at the time, not to the College's President or Board of Regents. The memorandum was not forwarded to the President and the College's external auditor did not comment on this potential liability in any succeeding audit. Thus, neither the President nor the Board of Regents were made aware of the potential tax liability until it was discovered as a result of the work of the investigative committee formed by Dr. Givens in 1995.

When the President and Board of Regents discovered the tax issue in 1996, two steps were taken - one immediate and long-term. Since it had always been the Board of Regents' intent to provide a tax-free housing allowance consistent with other state college presidents, the Board of Regents assumed financial responsibility for the tax liability, consistent with the board's employment agreement with Dr. Givens. Long-term, the Board of Regents and Dr. Givens dealt with the issue of why this tax liability was not reported to the board or

President in a timely manner. As previously noted, these actions included replacement of the College's outside accounting firm and replacement of the College's Vice President for Business and Financial Affairs. These actions were all taken prior to the state's audit of the College. Unfortunately, the failure to report resulted in an interest payment to the IRS of \$21,088 that the College would not have expended if the tax issue had been promptly reported to the Board of Regents or to Dr. Givens. The College accepts responsibility for this \$21,000 payment.

Since the College became part of the state system of higher education in 1979, the College had never been audited by the Office of the State Auditor. As a new college in the state system, assistance and guidance from the Office of the State Auditor would have been useful during this period.

2. Consulting Services

The College has hired consultants to perform various professional services for the institution. During the period reviewed, these services included grant writing; institutional support; accounting; legislative research; and fundraising. Our review of these consulting expenditures and their procurement noted the following concerns:

- A. The state's OA has granted the College the authority, through Chapter 34 RSMo, to procure contractual services directly rather than referring their procurement to the OA, Division of Purchasing and Materials Management. The College must still comply with several of the state's purchasing guidelines. The College must solicit competitive bids for purchases of \$3,000 or more. For purchases of \$25,000 or more, the College must comply with requirements for public notice, solicitation and advertising in accordance with Sections 34.040 and 34.042 RSMo, Cum. Supp. 1997. According to OA guidelines, the phrase "solicit competitive bids" means that the College must provide a legitimate opportunity for prospective vendors to compete. For several years, the College has contracted with three former employees to provide consulting services for the College. Two of these consultants write grant proposals and advise on various programs, and they received approximately \$15,000 and \$18,500, respectively, for the period July 1, 1996 to December 31, 1997. The other individual serves as the College's Executive Institutional Consultant and received approximately \$68,000 for period July 1, 1996 to December 31, 1997.

For 1997 and prior, the College contracted with these individuals without soliciting bids for the services as required. When the College realized these services should be bid, a Request for Proposals (RFP) for each of these services was prepared. However, the College's handling of the procurement process compromised the intent of Chapter 34, RSMo.

It appears the RFPs were written to accommodate the consultants' qualifications. The RFPs contained restrictive qualifications such as "knowledge of HSSC, its people and its strengths ... six years successful administration of HSSC's Title III-B program"; "extensive knowledge of Harris-Stowe State College and its programs"; "extensive knowledge of the history of Harris-Stowe State College and its

predecessor institutions ... exceptionally knowledgeable of the College's current academic programs, mission expansion and campus expansion efforts".

These qualifications outlined in the RFPs represented qualifications held primarily by the existing consultants and had the effect of excluding other possible consultants from consideration. The College received only one response to each of these three RFPs; those being from the consultants already providing the service. It appears the manner in which the College procured those services contributed to this lack of response.

Soliciting proposals and entering into a truly competitive bidding process does not preclude the College from selecting the vendor or individual best suited to provide the service required. Good bidding practices provide the College with a range of possible choices and allow it to make a better-informed decision to ensure necessary services are obtained from the best qualified vendor at the lowest and best cost.

B. The College did not always retain adequate documentation to support the evaluation of proposals received and the selection process. As a result, it was difficult to determine whether the procurement of various other services was handled properly.

- 1) The agreement for legislative research services in effect for the period November 1, 1997 to June 30, 1998, provided for consulting fees of at least \$13,600. We obtained the RFP for these services and the response to the RFP from the consultant selected; however, the College could not provide us with information/documentation regarding the number of RFPs sent to or proposals received from other interested parties, or the review and selection criteria.

In addition, the scope of services provided under this consulting agreement included obtaining various reports and other information which it appears would be readily available to the college. It is unclear why the college paid a consultant to obtain information which it could readily obtain itself. We also noted the agreement for legislative research services for the period October 1, 1996 to June 30, 1997, included similar services. This agreement provided for consulting fees of \$16,000, requiring \$7,000 of this amount to be paid at the inception of the agreement, before any services were performed.

- 2) The College pays a consultant \$2,500 per month for fundraising services. It appears proposals for these services were solicited in April 1996, for fiscal year 1997. We observed a letter from the evaluation committee which indicated two responses were received and evaluated, and recommended the College retain the consultant already providing the service. However, the College could not provide us with a copy of the RFP identifying the scope of these services, or documentation that the College complied with the requirements of public notice, solicitation, and advertisement as required by state law.

The current contract provides for the renewal of these services through fiscal year 2000.

All documentation related to the solicitation, advertisement, and evaluation of proposals should be retained to demonstrate the College's compliance with the state's competitive bidding requirements. In addition, the College should reconsider the need for paying a consultant to obtain information which it could readily obtain itself. In addition, payment for consulting services should be made after the services are provided.

- C. The College sometimes pays bills for consulting services when adequate supporting documentation has not been submitted as follows:
- 1) The RFP for legislative research services provides for a suggested number of hours per month, with the consultant to be paid for a minimum number of hours in total for the entire contract period. We noted that when the consultant bills the College for services, he submits a narrative of his activities; however, his invoice does not indicate the number of hours worked during that period. As a result, the College has little assurance that the consultant is being paid based on the actual hours worked, or that the minimum number of hours as specified in the RFP will be fulfilled.
 - 2) The monthly invoice for fundraising activities does not describe any tasks performed or when performed, but is simply a request for payment of the "monthly installment". As indicated earlier, the College could not provide us with documentation defining the scope of these services; therefore, it is difficult to calculate the reasonableness and propriety of the amounts paid.

The College should ensure that adequate supporting documentation is provided for any consulting services paid. Documentation should describe the tasks performed and the time spent on these duties if the consultant is paid on an hourly or other per unit basis. Lack of adequate documentation prevents the College from evaluating the appropriateness of the consultant services being billed.

- D. The College's Executive Institutional Consultant sometimes approved payroll authorization forms and certain other expenses on behalf of the President. It does not appear a consultant should be authorizing and/or approving expenditure transactions in lieu of proper authorization by a College official.

WE RECOMMEND the College:

- A. Ensure consulting services are competitively bid in accordance with state purchasing guidelines, and that the procurement process is handled in a manner consistent with the intent of the law.
- B. Ensure all information/documentation related to the solicitation, advertisement, and evaluation of the RFPs is properly retained. In addition, the College should reconsider the need to pay a consultant to obtain information which it can readily obtain itself. Also, payment for services should be made after the services are provided.

- C. Ensure consultants are paid in accordance with contract provisions and only when adequate documentation to support the billings has been provided.
- D. Consider the appropriateness of allowing a consultant to approve and/or authorize transactions which would generally be considered the responsibility of the College's management.

AUDITEE'S RESPONSE

- A. *Pursuant to Chapter 34 of the Missouri Revised Statutes, the College is required to seek competitive bids for any purchase, rental, or lease of any equipment, article, or thing in excess of \$3,000. While the College concurs with the Auditor's finding that it had not solicited competitive bids for some consulting services provided to the College prior to fiscal year 1998, the College does not agree that the manner in which it subsequently solicited bids for these services compromised the intent of Chapter 34.*

First, each Request for Proposal ("RFP") for consulting services sets forth the specific qualifications necessary to perform the tasks associated with the consultation without a lengthy, and thereby costly, learning period. As a result, the College obtained the needed services from the best qualified vendor at the lowest possible cost. While the Auditor has concluded that these specific qualifications had the effect of excluding other candidates from consideration, the College believes that any number of its former employees and other higher education personnel in the St. Louis metropolitan area met the qualifications and could reasonably have submitted bids to provide the consulting services sought. Moreover, the use of emeritus employees to perform consulting services is an established and accepted practice at institutions of higher education.

Second, in a finding related to the intent of Chapter 34, the Auditor cites a number of purportedly "restrictive" qualifications contained in the RFPs distributed by the College. The Auditor suggests that every RFP reviewed contained each of the qualifications referenced. In fact, the qualifications cited by the Auditor were extracted from at least three different RFPs, none of which contained all of the "restrictive" qualifications referenced in the audit report.

Furthermore, though not mandated to do so by statute, the College solicited competitive bids for consulting services by publishing the RFPs in the St. Louis Record, a legal publication circulated in the St. Louis metropolitan area.

Because the College does not believe that its actions relating to the solicitation of competitive bids for some consulting services for fiscal year 1997 were contrary to state purchasing guidelines or inconsistent with the intent of Chapter 34, the Auditor's recommendation is superfluous. With rare exception, the College has followed all state statutes and guidelines with respect to soliciting bids for consulting services. It should also be noted that in no case did the College expend public funds in excess of reasonable amounts for the services provided.

- B. *The College concurs with the Auditor's findings and has implemented the Auditor's recommendation.*

- C. *With respect to the instances cited, the College concurs with the Auditor's findings and recommendation. Moreover, the College requires the submission of a copy of the contract, the invoice, and the validating signature of the appropriate administrator after services are performed and before any payment for consulting services is rendered.*
- D. *The College concurs with the Auditor's findings and recommendation.*

3. Design and Construction Management Services

The College has established a five-year master plan for campus expansion. The plan includes the design and construction of six new buildings on campus. In April 1995, the College contracted with an engineering and architectural firm for the design of the first of these six buildings, a new library/technology center building. The design fee was approximately \$175,000. This agreement was subsequently amended in May 1997 to include construction management services for the new library/technology center building. The cost of these additional services was approximately \$83,500. The total estimated construction cost of this building was approximately \$2,100,000. We noted the following concerns regarding the procurement of design and construction management services of the new library/technology center building:

- A. The College did not maintain adequate documentation regarding the architectural firms considered for the design services. Although the College had documentation indicating six firms were evaluated for design services, the College could only provide us with the information submitted by the firm selected. In addition, the College did not have a written description of the scope of the proposed services.

The College should maintain complete documentation related to the procurement of architectural services, including all information received. In addition, Section 8.291, RSMo 1994, requires that a written description of the scope of the proposed services should be prepared during the procurement of engineering or architectural services as a basis for negotiations.

- B. The construction management services were not procured in accordance with state law. The College negotiated with the firm which designed the building to provide construction management services without advertising for proposals for these services.

Section 8.679, RSMo 1994, provides that if the cost of a construction project exceeds \$1,500,000, proposals for construction management services shall be solicited by advertisement in a specified manner. The proposals are then to be evaluated based on various criteria as outlined in Section 8.681, RSMo 1994.

WE RECOMMEND the College:

- A. Retain all information received related to the procurement of engineering and architectural services. In addition, a written description of the scope of the proposed services should be prepared as required.

- B. Advertise for the procurement of construction management services in accordance with state law.

AUDITEE'S RESPONSE

- A. *The College concurs with the Auditor's findings and has implemented the Auditor's recommendation.*
- B. *The College concurs with the Auditor's findings and has implemented the Auditor's recommendation. It should also be noted that the amount paid by the College was consistent with, if not lower than, the St. Louis market rate for such services.*

4. Expenditures

College records indicate expenditures, not including personal service costs, totaled approximately \$4,325,000 and \$9,900,000 for the period July 1, 1997 to December 31, 1997 and for the year ended June 30, 1997, respectively. Our review of these expenditures disclosed the following:

- A. College purchasing guidelines require competitive bids for purchases over \$3,000. For purchases over \$25,000, the College must comply with requirements for public notice, solicitation, and advertisement in accordance with Chapter 34, RSMo. During our review of expenditures, we noted some items were not properly bid. For example, for the period July 1, 1996 to December 31, 1997, the College paid its recruiting/advertising firm over \$26,000 for services (this amount does not include the actual costs of advertising). According to College personnel, this service has not been bid for several years. In addition, the College paid approximately \$224,000 for janitorial services for the period July 1, 1996 to December 31, 1997. It appears this service was last bid in 1995. Also according to College personnel, the College bookstore service has not been bid since 1986. For the period July 1, 1996 to December 31, 1997, the College paid over \$95,000 for the bookstore purchases. Other purchases noted that were not bid include robot kits and parts totaling \$9,189, school banners totaling \$7,972, and a chartered bus for the baseball team totaling \$3,287.

Purchasing policies should be enforced to ensure items or services are purchased at the lowest and best price. In addition, competitive bidding also helps ensure all vendors are given an equal opportunity to participate in College business.

- B. We noted the following weaknesses in the reviewing, approving, and paying of College expenses:
- 1) Many payments did not include adequate supporting documentation. For example, the invoices and other supporting documentation for meal charges did not generally identify the business purpose of the meal or the names of those individuals provided meals. In addition, payments made for credit card purchases were generally paid from the credit card statement, without an attached, itemized list of items purchased or services received. Hotel statements did not usually include an itemized statement of the charges.

Also, the College did not retain delivery slips for courier service; therefore, the delivery slips were apparently not reconciled to an invoice before payment was made.

- 2) Disbursements are made from a signed distributing order. The distributing order requires two signatures, an authorizing approval signature and approval signature. It appears the employee with knowledge about the disbursement generally authorizes the distributing order, and then the transaction is to be approved by the employee's supervisor. However, the College does not require the supporting documentation such as invoices to be reviewed or initialed by either the individual authorizing the disbursement or the supervisor who approves the disbursement.
- 3) The College did not always make payments on a timely basis. During our review of expenditures, we noted at least \$1,900 was paid for late fees/charges on items such as cellular phone bills and credit card statements. In addition, we noted the College incurred an IRS penalty of \$1,392 in late 1996 for insufficient or untimely payroll tax deposits.
- 4) It appears invoices are not always reviewed for mathematical accuracy prior to being paid. During our review, we noted overpayments, totaling over \$600, to vendors because of mathematical errors on the invoices.

The College should establish policies and procedures to ensure bills are properly reviewed and authorized, invoices are mathematically accurate, and bills and other required payments are paid timely. In addition, the College should ensure that adequate documentation is attached to support all expenditures. All meal purchases should identify the business purpose and the individuals provided meals. Credit card and hotel statements should be supported by an itemized list of charges and delivery slips for courier services should be retained and reconciled to invoices.

- C. The College's expenditure records indicate that during the period July 1, 1996 to December 31, 1997, food expenditures totaled over \$94,000 from various unrestricted funds. Those food costs included expenses related to travel by College employees on official business and food purchases related to various meetings of the faculty, staff, President's cabinet, and Board of Regents.

While a certain level of food expenses is probably necessary, those costs need to be assessed in terms of their importance compared to other critical education needs of the College. The College should review this area and look for ways to reduce its overall food costs.

- D. During our review of expenditures, we noted various types of expenditures for which policies have not been developed. These areas include the following:
- 1) For the period July 1, 1996 to December 31, 1997, College records indicate the College spent approximately \$30,000 for individual memberships and dues to various organizations. A written policy should be developed to clarify what types of memberships are allowed, and perhaps, limit the number

or dollar amount per employee. A written policy would provide guidance for employees in determining memberships that would be allowed, as well as give the College greater control over expenditures and ensure the memberships are beneficial to the College.

- 2) The College provides telephone calling cards to some employees to use for College business. According to College personnel, only international calls are reviewed so the call can be charged to the proper department. Our review of the telephone calling cards disclosed some calls were made on weekends and some calls were made to the applicable employee's home. No documentation was maintained to indicate whether these calls were of a personal nature or for the benefit of the College.

The College should ensure adequate controls are established over charges incurred on telephone calling cards.

- E. During our review, we noted other expenditures which may not be a prudent, reasonable, or necessary use of College funds as follows:

- 1) We noted instances where tickets were purchased for faculty and staff, students, regents, and special guests for events such as awards dinners and/or dinner roasts, sporting events, and concerts. College records indicated over \$20,000 was spent on cultural and social event tickets for the period July 1, 1996 to December 31, 1997.
- 2) The Harris-Stowe Foundation is a not-for-profit corporation established to provide support and assistance to the College. During our review, we noted the College sometimes provides meals for Foundation meetings. In addition, we noted the College spent over \$2,300 in August 1997 for an appreciation dinner for the Foundation Board. Providing public funds to private organizations appears to be inappropriate and may violate provisions of the Missouri Constitution.

It is important that all expenditures be viewed in terms of the critical needs of the College. In times of limited resources, expenditures should be evaluated and compared to the overall goals and responsibilities of the College. In addition, the College should not donate public funds to its Foundation.

WE RECOMMEND the College:

- A. Ensure purchases of goods or services are properly bid in accordance with established purchasing policies and state law.
- B. Establish written policies and procedures to ensure bills are properly reviewed and authorized, invoices are mathematically accurate, and bills and other required payments are paid timely. In addition, the College should ensure that adequate supporting documentation is retained and attached for all payments.

- C. Review food expenses closely to ensure they are necessary and benefit the College. An effort should be made to reduce expenditures in this area, if possible.
- D.1. Establish a policy which addresses payment of employee dues and memberships. The policy should cover the number of memberships that will be paid per employee or establish an annual dollar amount that may be spent by an employee. It should address the types of organizations which may be joined at the College's expense, limiting such memberships to those which will benefit the College.
- 2. Establish adequate controls to ensure the proper use of telephone calling cards.
- E. Ensure all expenditures are necessary and a proper use of College funds. The College should not donate public funds to the Foundation.

AUDITEE'S RESPONSE

A-C. The College concurs with the Auditor's findings and has implemented the Auditor's recommendations.

D. Participation by institutions of higher education, including the faculty and professional staff, in the multitude of collegiate professional associations is highly encouraged by the national higher education accreditation organizations and is indeed a requisite for professional growth. The College's participation level is appropriate and is considered by the College to be a necessity. Moreover, individual memberships are carefully scrutinized by the appropriate Vice President and must be related to the College's mission. Institutional memberships are recommended by Vice Presidents and ultimately considered for approval by the College's President.

The College has maintained adequate internal controls to prevent employees from misusing long distance telephone calling cards. It should be noted that only 16 of the 160 College employees have been issued long distance telephone calling cards. Issuance of the calling cards is based solely on the employees' job assignment. Calling cards have been issued to employees, all of whom travel regularly on behalf of the College. It should further be noted that the costs associated with the use of long distance telephone calling cards is minimal.

E. During the period referenced by the Auditor, the College was heavily engaged in a major fundraising effort to support its mission and campus expansion. To date, fundraising efforts have brought in \$21.7 million of its \$30 million goal. Participation in community events is deemed an integral part of the development effort. Furthermore, tickets to some cultural events were purchased, using earmarked grant funds, for participants in the College's programs for low income and first generation pre-college and college students.

The College concurs with the Auditor's findings with respect to the Harris-Stowe Foundation and has implemented the Auditor's recommendation.

5.	Cash Management

Our review of the controls, policies, and procedures related to the College's banking practices and handling of receipts disclosed the following concerns:

- A. The College has not solicited bids for its checking and depository services nor entered into a written agreement with its depository bank. To ensure the quality of banking services and ensure interest earnings received by the College are maximized, the College should procure its banking services through a competitive bid process. In addition, the College should enter into a written agreement with its depository bank.

All such agreements should require that deposits in excess of Federal Depositary Insurance Corporation (FDIC) limits be secured by bank assets pledged to the College. In addition, the bank service agreement provisions should include, but not be limited to, any bank fees for check printing, checking account services, safe deposit boxes, interest charges for borrowed funds, and interest rates for invested funds. A written depository contract helps both the College and the bank understand and comply with the requirements of any banking arrangement.

- B. The College has not established policies and procedures for the type of investments and bank accounts needed to maximize the interest earnings of the College. Currently, receipts are deposited in regular checking accounts, super negotiable order of withdrawal accounts, a saving account, and a money market account. Funds deposited for the campus expansion are invested in certificates of deposit, U. S. Treasury notes, and other government securities.

Monies in the College's unrestricted account that are not needed for day-to-day business are swept daily by the bank into a treasury money market account. This treasury money market account is exempt from state income tax. As a result, it appears the investment return was probably lower than investments which are taxable. Since the College does not pay state tax, it appears this account did not provide the College with as high a return as other investment alternatives.

The average rate of return on this account in 1997 was approximately 4.6 percent. In contrast, the rate of return on overnight repurchase agreements of the State Treasurer's office in fiscal year 1997 was approximately 5.5 percent. Considering the average balance of this account was approximately \$580,000 in 1997, it appears the College could have earned an additional \$5,200 in interest in that year had it maintained this money in a comparable higher yielding account.

Monies should be maintained in the highest yielding investment legally possible, while still considering the liquidity needs of the College and security of the funds. The College should establish policies and procedures for the appropriate types of investments, including bank deposits and government securities that meet its needs.

- C. The College collects monies for tuition and fees, from federal, state, and local grants and contracts, and from private donations. The majority of these monies are received by check, money order, credit card, and wire transfer; however, over 10 percent is received in cash. The Cashier's Office collects and deposits these funds. Our review of the Cashier's Office noted the following concerns:

- 1) The College has twenty-eight bank accounts, and it appears a separate bank account has been established whenever monies are received for a specific

program. At the time of our review, we noted four accounts had a zero balance and were not being used. Another account had a balance of approximately \$1,300 and was also inactive.

A large number of bank accounts requires additional record keeping and increases the likelihood that errors will occur in the handling of funds. Overall efficiency could be improved by reducing the number of accounts to as few accounts as needed. Consolidating existing accounts would also allow funds to be pooled for increased investment opportunities.

- 2) Bank reconciliations are not adequate and are not prepared on a timely basis. In addition, according to College personnel, there is limited supervisory review of the bank reconciliations. During a review of the December 1997 bank reconciliations for the unrestricted account, general disbursement account, and the payroll account we noted the following problems with the bank reconciliations of these accounts:

- * The amount of outstanding checks on the reconciliations was not always supported by a detailed list of checks.
- * Some transfer amounts recorded in the general ledger did not agree to the amounts actually transferred per the bank statements. In addition, some transfer amounts recorded on the general ledger never appeared on the bank statements.
- * Some credit card receipts which were refunded (due to students dropping classes) and deducted from the bank account were not recorded in the general ledger.
- * On December 11, 1997, the bank validated a deposit with included \$174 in cash; however, this amount did not get credited to the account in December 1997. College personnel were not aware of this bank error until we brought it to their attention in March 1998. The \$174 was identified on the December 1997 bank reconciliation as a deposit in transit. The bank credited \$174 to the College's account in March 1998.
- * Some adjustments on the reconciliations appeared to be plug numbers to agree bank to book, and were carried forward from month to month. These adjustments are not investigated and corrected on a timely basis.
- * We noted seven payroll checks, totaling \$2,102, which had been outstanding since June or September 1996.

Monthly bank reconciliations are necessary to ensure the accounting records agree with bank records and to detect misstatements on a timely basis. In addition, checks outstanding for over a year should be investigated and reissued if necessary.

- 3) Receipts are not deposited intact. The College allows employees to cash personal checks out of daily cash receipts. Cashing personal checks from daily receipts is a poor practice and reduces the accountability for monies received.
 - 4) Checks and money orders are not restrictively endorsed until deposits are prepared. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.
- D. Individuals giving the College checks which are returned by the bank for insufficient funds (NSF) are assessed a fee of \$15. If the NSF check is from a student, the check amount and fee is recorded on the student's account along with a "hold". A hold on a student's account is intended to prevent further activity (such as registering for classes, receiving grades, ordering transcripts, etc.) until the amount due is paid. Our review of the controls, policies, and procedures over NSF checks disclosed the following problems.
- 1) The College has not established policies and procedures over the collection of NSF checks. Since September 1997, the College has handled the collection of the NSF checks and related fees. Prior to that, collection was handled by an outside contractor.

The College should prepare written guidelines for the collection of NSF checks. These guidelines should include timely notification and follow-up procedures.
 - 2) The College does not maintain a summary record listing the NSF checks and their disposition. During a review of the bank statements, we noted NSF checks of \$189 (in May 1997) and \$747 (in August 1997) which were charged against the College's bank account. However, the College was not able to provide information about the payees; whether the check amounts and \$15 fees were collected; or whether a hold was placed on the students' accounts, if applicable.

All NSF checks and their disposition should be documented in a summary record to ensure such checks are collected, handled, and accounted for properly.
 - 3) Prior to September 1997, NSF checks and the \$15 fee were collected by a collection agency. Because the College did not maintain a summary record of NSF checks and because the collection agency did not identify the checks collected and paid the College monthly, the College cannot readily determine which checks were collected by the agency and the balance due the College.

In February 1998, the College received \$3,757 from the agency for NSF checks sent to the agency prior to September 1997 and collected by the agency after September 1997. Because of the poor records, \$1,582 of the payment has not been identified and applied to the appropriate students'

accounts. College personnel stated that they are still attempting to resolve this situation.

- 4) The College does not consistently assess and collect the \$15 fee. During our review of NSF checks for 1997, we noted that the fee was not collected on one check written by a college employee or on three checks written by students. Two of the students were allowed to enroll even though a hold was placed on their student account. In addition, we noted one instance where the hold was removed because the NSF check amount was paid; however, the fee was not collected.

The College should ensure the \$15 fee is assessed and collected. Students should not be allowed to enroll when such amounts due the college are outstanding.

- E.1. The College makes numerous electronic transfers (by phone) from the various bank accounts to the general disbursement and payroll clearing accounts; however, an adequate record of the transfers between accounts is not maintained. Documentation for these transfers generally consists of notations on scraps of paper. In addition, it appears authorization for the transfers is generally verbal and given after the transfers are made. Also, as noted above, some transfers recorded on the general ledger did not agree with the amounts transferred between bank accounts.
2. In September 1997, the College transferred \$100,000 into the payroll clearing account. According to College personnel, the \$100,000 was to serve as a "cushion" to prevent overdrafts. However, this cushion according to the December 1997 bank reconciliations was \$74,911. It appears this cushion was reduced because subsequent amounts which should have been transferred to the payroll clearing account according to payroll records were not the actual amounts transferred.

A record of transfers between bank accounts should be maintained and reconciled to the general ledger accounts and bank statements on a monthly basis. In addition, authorization for any transfers should be documented and given before the transfers are made. In addition, if the monthly transfers made to the payroll clearing account are made correctly, there should not be a need for the "cushion" which has been established.

WE RECOMMEND the College:

- A. Seek competitive bids for its banking services on a periodic basis, and enter into a written agreement with its depository bank.
- B. Establish policies and procedures authorizing the type of investments which are appropriate and which ensure the College's funds are maintained in the highest yielding investments available.
- C.1. Reduce the number of bank accounts maintained to as few as needed to efficiently account for the College's monies.

2. Prepare accurate and timely bank reconciliations. Complete documentation should be prepared to support conclusions, any necessary adjustments, and to facilitate an independent review. In addition, an adequate supervisory review of the bank reconciliations should be performed.
3. Require all receipts be deposited intact and discontinue the practice of cashing personal checks from daily receipts.
4. Require all checks and money orders be restrictively endorsed immediately upon receipt.
- D.1. Establish written guidelines for the collection of NSF checks. These guidelines should include timely notification and follow-up procedures.
 2. Establish a summary record which lists all NSF checks and documents their disposition.
 3. Continue efforts to identify and apply the \$1,582 to the proper student accounts.
 4. Require the \$15 NSF check fee be consistently assessed and collected. In addition, the College should ensure its policy for holds on student accounts is followed.
- E. Establish a record of bank transfers and reconcile the record to the general ledger accounts and bank statements on a monthly basis. In addition, authorization for any bank transfers should be documented and be given before the transfers are made. Further, the College should ensure the monthly transfers made to the payroll clearing account are made correctly and reevaluate the need for the "cushion" which has been established.

AUDITEE'S RESPONSE

- A. *The College concurs with the Auditor's findings and recommendation. The College is in the process of developing specifications for the procurement of banking services.*
- B. *The College concurs with the Auditor's findings and has implemented the Auditor's recommendation. Policies and procedures relating to the investment of the College's funds were developed by the Vice President of Business and Financial Affairs and approved by the College's Board of Regents on August 20, 1998.*
- C. *The College concurs with the Auditor's findings and has implemented the Auditor's recommendation. In particular, as of June 30, 1998, the number of active bank accounts maintained by the College was reduced significantly. Additionally, the cashier's office is now fully staffed with employees trained in accounting procedures and policies.*
- D. *The College concurs with the Auditor's findings and has implemented the Auditor's recommendation. Guidelines for handling and processing NSF checks have been established and implemented by the College.*

- E. *The College concurs with the Auditor's findings and recommendation. A written procedure for the electronic transfer of the College's funds has been established and implemented.*

6. Employee Benefits

The College provides group health insurance coverage to employees, at no cost to the employee. Employees can choose to join a Health Maintenance Organization (HMO) or a Preferred Provider Organization (PPO). Employees are to pay the premium for family coverage through payroll deductions. In addition, the College provides group life, long term disability, and accidental death/dismemberment insurance, at no cost to the employee. Our review of these benefits disclosed the following concerns:

- A. The College does not reconcile billing statements and eligibility lists from its medical insurance carriers to appropriate personnel and payroll records on a periodic basis. As a result, the following problems were noted:

- 1) The February 1998 HMO billing statement included eight employees who had previously terminated employment with the College. The statement also included one employee who moved to part-time status in September 1997, even though the College's policy is to provide health care benefits only to full-time employees.

As we were reviewing this area, the Director of Human Resources reconciled the current HMO statement and eligibility list to personnel and payroll records and requested a credit for overpayments made to the HMO. As a result, in April 1998, the College received a credit of approximately \$6,300 on its statement. This credit included adjustments back to July 1997 and it appears corrected the problems noted during our review.

- 2) We noted that in February 1998, an employee covered under the PPO plan was not properly charged \$323 for the family portion coverage under the plan. Family coverage is to be paid by the employee and the premium amount is to be deducted from the employee's payroll check. The employee selected this coverage in January 1998; however, the College had not updated its payroll records to deduct this amount monthly from the employee's payroll check. As a result, the College inadvertently paid these premium costs. In addition, the February 1998 PPO billing statement also included an employee who was receiving HMO coverage. According to the employee's personnel file, the employee selected HMO coverage and should have been removed from the PPO coverage. As a result, the College incurred costs under both plans for this employee for a period of time. We also noted the College paid the premium for a part-time adjunct faculty employee. As noted above, College's policy is to provide health care benefits only for full-time employees.

By not reconciling the medical insurance carriers billing statements and/or eligibility list to its personnel and payroll records, the College has little assurance that it is paying the proper premium amounts, that employees are receiving the proper benefits, or that withholdings from an employee's wages are handled and accounted

for properly. The College should reconcile medical insurance billing statements to appropriate personnel and payroll records on a periodic basis, and ensure terminated employees are removed promptly from the system. In addition, the College should establish procedures and controls which ensure that insurance rates and employee deductions are the proper amount, that premiums are only paid to the provider selected by the employee, and that benefits are paid only for full-time employees.

- B. As of April 1998, the College had not paid PPO premiums to the carrier since December 1997. In addition, the monthly billing statements for the HMO in 1998 included a balance due of approximately \$40,000. When we inquired about this balance, College personnel determined that the April 1997 premiums had not been paid.

The College should ensure that medical insurance premiums are paid on a timely basis. Not doing so could jeopardize the insurance coverage being provided to employees and/or result in additional costs being assessed for late payment of the premiums.

- C. In early 1997, before employees had selected their plan option, the wrong premium rate was quoted to employees for the employee and children option of the HMO plan. According to College officials, when this error was discovered the College initially decided to absorb the difference between the rate quoted the employees (\$31 per month) and the rate which was paid to the carrier (\$78 per month) for those employees who had selected this plan option. As a result of this situation, an additional \$16,700 was paid from College funds to the HMO carrier for the employee and children plan for the period March 1997 to December 1997. These costs would have been paid by the employees had this been handled correctly.

To avoid similar mistakes in the future, the College should ensure adequate care is taken to ensure the costs of various health plan options are quoted correctly to employees. In addition, the College should not pay costs which are not the responsibility of the College.

- D. The College provides group life, accidental death/dismemberment, and long-term disability insurance to its employees. Employees may also purchase additional supplemental life insurance. The College acts as the administrator for this plan. Our review of the College's handling of the insurance program disclosed the following concerns:

- 1) The College maintains a spreadsheet related to the employees' insurance basis, the type of benefits and rates, age of employee, etc. The spreadsheet is used to calculate the monthly insurance premium due the insurance carrier. We noted numerous errors in the spreadsheet which appeared to be formula errors. For example, the insurance basis for an employee (two and one-half times the employee's annual salary) was not always the correct amount. Also, the amounts noted for the employees' annual salaries and the supplemental insurance basis were not always correct. As a result, the College has little assurance the premium paid is the proper amount.

- 2) The March 1998 spreadsheet included a student worker and a terminated employee. In addition, two other employees were included twice. As a result, the College incurred additional premium costs which should not have been paid.
- 3) The payroll records did not include the proper deduction amount for four employees selecting supplemental insurance. As a result, the College, in effect, paid some premium costs which should have been paid by employees.
- 4) As of April 1998, the College had not paid the premiums related to this insurance program for February and March 1998. Premium payments are due to the insurance company on the first day of each month. As noted earlier, it is important that premiums be paid on a timely basis to ensure insurance coverage for the employees is not jeopardized and to avoid late assessments.

WE RECOMMEND the College:

- A. Ensure medical insurance billing statements are reconciled to the appropriate personnel and payroll records on a periodic basis. In addition, the College should ensure that terminated employees are removed promptly from the system and its policy of providing benefits for only full-time employee is followed.
- B. Ensure medical insurance premiums are paid on a timely basis.
- C. Ensure the health insurance rates are quoted correctly to employees and, in the future, refrain from paying the cost of benefits that should be paid by the employees.
- D. Establish policies and procedures to ensure the insurance plan is administered properly. This would include ensuring the premiums are paid on a timely basis and are the correct amount.

AUDITEE'S RESPONSE

A-D. The College concurs with the Auditor's findings and has implemented the Auditor's recommendations.

7.	Accounts Receivable
-----------	----------------------------

The College has established various accounts receivable including accounts related to payroll advances made to employees, emergency loans made to students, and student accounts for tuition and fees. Our review of these accounts receivable noted the following concerns:

- A. The College provides short-term emergency loans to students. Such loans, are not to exceed \$75 and are to be repaid within thirty days. These funds are provided by the College and private donors. The balance of outstanding emergency loans at February 28, 1998, totaled approximately \$6,300.

Many of these loans have been outstanding for a significant period of time, with some of these loans dating back to 1995. According to accounting personnel, the College has not established any procedures (such as sending statements to the students) to collect past due accounts. Instead, a hold is placed on the student account, which is intended to prevent the student from receiving any further services from the College (such as receiving a transcript or registering for classes) until the loan is repaid. However, even with a hold, a student may enroll in classes with special permission. We also noted seventeen loans, totaling \$2,387, which were for more than \$75. In addition, several students received an additional loan when they already had an outstanding loan.

The College should establish procedures for the collection of emergency loans. In addition, students should not receive emergency loans in excess of the established limit or receive an additional loan if a previous loan has not been repaid. The emergency loan program should be administered in accordance with established policies and effectively managed to safeguard the College from possible loss of funds or prevent College funds from being committed for an extended period of time.

- B. The balance of the subsidiary ledger for student emergency loans does not agree with the general ledger amount. The College has not recorded general ledger journal entries recommended by its independent auditors for the year ended June 30, 1997, and does not reconcile the subsidiary ledger to the general ledger on a monthly basis.

In addition, the balance of the subsidiary ledger for student accounts receivable (outstanding tuition and fees) was \$406,868 at March 31, 1998. However, the general ledger account balance was \$330,837 at that date. According to accounting personnel, a reconciliation between the subsidiary ledger and the general ledger is not performed because there are errors in the general ledger which have been carried forward from period to period, and because the College has not recorded general ledger journal entries recommended by its auditors for the year ended June 30, 1997. A monthly reconciliation between the subsidiary ledgers and the general ledger accounts would detect errors or irregularities on a timely basis.

- C. The College allows employees to request payroll cash advances for the purpose of assisting them when facing unusual or unexpected financial obligations. Two payroll advances may be obtained by an employee during any fiscal year and the advances are available on or after the sixth working day of the month. The payroll advance is limited to 25 percent of the prior month's net payroll amount. Reimbursement of an advance is made through a payroll deduction or a post-dated check.

Such payroll advances decrease the control over expenditures and increase the paperwork for the accounting office. For example, an employee who is normally paid through the state payroll system must be moved to the local payroll system from the state system when a payroll deduction is made for a payroll advance. Then, the next month, the employee must be reentered on the state system. The College should reevaluate this policy of allowing payroll advances.

WE RECOMMEND the College:

- A. Establish collection procedures for student emergency loans and enforce the policy of limiting loans to \$75.
- B. Perform a monthly reconciliation between the subsidiary ledgers and the general ledger for the emergency loans and the student accounts receivable. In addition, adjusting journal entries should be posted on a timely basis.
- C. Reevaluate the policy of allowing payroll advances to employees.

AUDITEE'S RESPONSE

- A. *Only those students who have made satisfactory arrangements for repayment of past due emergency loans are allowed to register for and remain enrolled in classes. In addition, in November 1998, the College revised its written policy and procedure to more effectively prevent students with past due balances from registering for classes.*
- B. *The College concurs with the Auditor's findings and has implemented the Auditor's recommendation. As of July 1998, the subsidiary and general ledgers are reconciled on a monthly basis.*
- C. *The College concurs with the Auditor's findings and has implemented the Auditor's recommendation. The policy allowing employees to obtain a limited number of cash advances was repealed by the College's Board of Regents on September 23, 1998.*

8.	Accounting System and Controls
-----------	---------------------------------------

The College has developed an accounting system and procedures to enable it to process revenue and expenditure transactions. A review of the accounting system and related procedures disclosed the following areas of concern:

- A. The accounting department has experienced a high turnover in personnel in the last several years. Supervisors and staff in the accounts payable, accounts receivable/cashier, and payroll sections have been moved to new positions or assigned additional responsibilities because of the turnover. During our review, we noted that some employees did not appear to always understand their duties/responsibilities. According to accounting personnel, they receive little supervised on-the-job training after accepting new positions or duties. In addition, there is no accounting manual that provides guidance about policies, procedures, controls, or documentation.

Employees need written policies and procedures to ensure operations are conducted in accordance with management's intent and applicable legal provisions, and to assist employees in properly performing their assigned responsibilities. In addition, employees should receive adequate training and supervision to ensure they understand their duties/responsibilities.

- B. The College's accounting system is computerized and the software modules include the general ledger, report writer, accounts receivable, accounts payable, and payroll/personnel. The security software package controls who can access the

accounting system. During our review of computer security, we noted the following concerns.

- 1) It appears access to the various functions within the modules is not adequately limited. In addition to two software support personnel, the supervisors for accounts receivable, payroll, and accounts payable, a payroll clerk, the Director of Human Resources, and the Vice President for Business and Financial Affairs can access all modules. Eight other employees have access to all modules except for payroll/personnel. As a result, some employees have access to functions which they do not need to perform their duties.

By not adequately restricting access to various functions within the modules, the risk of unauthorized use or modification of the data is increased.

- 2) The College has not revoked access to the accounting system on a timely basis when an employee terminates employment. At our request, College personnel provided a list of employees who still could access the accounting system. Four former employees were included on the list. When an employee terminates employment, that individual's access to the accounting system should be revoked promptly.

- C. Full-time employees whose salaries are funded by various grants, employees who receive overtime pay, and employees who receive supplemental pay for additional duties are paid through the local payroll system. In addition, all part-time employees and student workers are paid through the local payroll system. An employee receives an identification number for the type of pay from the local payroll system.

As a result of this situation, an employee may have more than one identification number. For example, an employee may have three identification numbers; one for pay from grant funds, one for overtime pay, and one for supplemental pay for additional duties. We noted that for 1997, approximately thirty-five employees received more than one Form W-2 from the local payroll system. This is because the Forms W-2 are generated based on the employee's identification number, rather than the employee's social security number.

Better control over payroll expenditures would be achieved by issuing Forms W-2 based on the employees' social security numbers. This could also possibly reduce the administrative time required to process these forms.

- D. The College issues Forms 1099 MISC to vendors who receive payments of \$600 or more in the aggregate during a calendar year in accordance with federal tax requirements. These forms are to be issued to the vendor by January 31. During our review of the 1997 Forms 1099 MISC, we noted various errors. For example, we noted a Form 1099 MISC was not issued to a vendor who received over \$600, some amounts on the Forms 1099 MISC did not agree to the College's expenditure records, and some social security numbers were not correct on the Forms 1099 MISC. When we brought these matters to the attention of College personnel, the College issued corrected 1997 Forms 1099 MISC to the applicable vendors/individuals.

The College should establish procedures to ensure the Forms 1099 MISC are issued in all applicable instances and include accurate information.

- E. The College has developed a very detailed, descriptive expenditure coding system. For example, phone costs can be broken down into several different categories including local service, internal system service, long distance service, leased phones, telephone maintenance/repair, telephone purchase, cellular/wireless phone, and voice mail. This coding system, if properly used, would provide an excellent basis for monitoring expenditures.

However, during our review of expenditures we noted many expenditures were coded incorrectly. For example, the College did not always appropriately split the costs of meals and membership dues for the St. Louis Club and the Missouri Athletic Club. Sometimes, the entire month's bill was charged to meals and other times the entire month's bill was charged to membership dues. In addition, food provided by the College's food service vendor was sometimes charged to meals and other times to catering. Many items were coded to a category called "Other Public Relation Costs" or "Miscellaneous Professional Services", rather than using a code which would be more descriptive of the expenditure.

Properly coding expenditures enables the College to better monitor how funds are spent. Such information could assist College personnel in making budgeting decisions and allocating resources.

- F.1. The College uses an automated invoice processing system to process bills paid by the College. To receive payment, vendors must be entered in the system with a vendor number. According to personnel, only employees in the Purchasing and Accounts Payable department actually add vendors; however, all personnel with access to the accounting software package (approximately sixteen employees) have the capability to add vendors to the system.

This capability could allow unauthorized payments to be processed. Greater controls should be established to ensure only authentic vendors are entered on the payment system. Ways to enhance controls would be to reduce the number of employees with the computer capability to add vendor records, and initiate a supervisory review of newly established vendor numbers.

- 2. Our review of the vendor list disclosed numerous duplicate vendor names, each with a separate vendor number. Many times the duplicate entry was due to a slight difference in spelling such as "St. Louis" vs "Saint Louis". The current software package will not permit the removal of vendors, except by purging them from the file. According to personnel, the College has never purged the vendor file.

Deleting duplicate vendor names and inactive vendors would give the College better control over vendor information and would result in a more efficient operation.

- G. Numerous College personnel can add account numbers to the College's computerized Chart of Accounts. These new account numbers are not always approved by the

appropriate management employees. According to College personnel, the account number, especially the expenditure code, is not always consistent from fund to fund.

Greater controls should be established to ensure only properly approved account numbers are added to the Chart of Account. Ways to enhance controls would be to reduce the number of employees with the computer capability to add accounts, and initiate a supervisory review and approval of newly established accounts.

WE RECOMMEND the College:

- A. Develop a policies and procedures manual for the accounting system. In addition, the College should take steps to ensure the accounting staff is properly trained and supervised.
- B. Take steps to restrict access to the various functions within the accounting modules to only those personnel who need access to perform their duties. In addition, the College should promptly revoke access by terminated employees to the accounting system modules.
- C. Consider preparing Forms W-2 based on social security number rather than employee identification number.
- D. Establish procedures to ensure Forms 1099 MISC are issued in all applicable instances and include complete and accurate information.
- E. Instruct accounting personnel on proper coding procedures to ensure expenditures are classified appropriately.
- F.1. Evaluate the controls over vendor records and consider reducing the number of people with access to these computer records. In addition, newly established vendor numbers should be reviewed periodically by someone in a supervisory position.
- 2. Purge the vendor file of duplicate and inactive vendors on a periodic basis.
- G. Evaluate the controls over the Chart of Accounts and consider reducing the number of people with the ability to add new accounts. Newly established accounts should be approved by someone in a supervisory position and be consistent from fund to fund.

AUDITEE'S RESPONSE

A&D. The College concurs with the Auditor's findings and has implemented the Auditor's recommendations.

B. The College concurs with the Auditor's findings and has implemented the Auditor's recommendation within the limitations of the College's current accounting software package.

C. While the College concurs generally with the Auditor's findings, issuing more than one Form W-2 to an employee who works overtime or is compensated from various sources is

sometimes the only effective manner of ensuring that the employee's wages are accurately and properly reported to the Internal Revenue Service, Missouri's Department of Revenue, and the city of St. Louis Collector of Revenue.

- E. The College concurs with the Auditor's findings and has implemented the Auditor's recommendation. Moreover, training, clarifications, and guidance on various subjects are provided on a continuous basis both in-house and by the state Office of Administration.*
- F. While the College concurs with the Auditor's findings, many of the problems noted are due to the limitations of the College's existing accounting software package. However, the College has never had an unauthorized vendor added to the vendor file.*
- G. While the College concurs with the Auditor's findings, many of the problems noted are due to the limitations of the College's existing accounting software package, which does not provide for limited access to certain accounting functions. However, internal controls have been established to prevent the addition, either inadvertently or deliberately, of any unauthorized vendor. An updated version of the College's current accounting software package has been obtained and is being installed. The College is reviewing the availability of improved accounting software packages and has committed to acquisition of a new software package in 2001.*

9. Payroll and Personnel Matters

Personal service costs represent the College's single largest expenditure category. These costs (salaries and fringe benefits) totaled over \$8,500,000 for the year ended June 30, 1997. Our review of the College's payroll records and personnel policies and procedures disclosed the following concerns:

- A. The College has not established written job descriptions for its academic and non-academic positions. Written job descriptions are necessary to document the duties, responsibilities, and qualifications for each position, and help ensure that qualified people fill the positions. Written job descriptions could also help the College identify duplicate and overlapping duties and non-essential positions, as well as providing a basis in which to evaluate employee job performance.
- B. The College has not established pay grade and/or salary range schedules to determine salaries for its academic and non-academic employees. The lack of an established pay and/or salary range may lead to confusion and assertions of inequity and preferential treatment among College staff.

Each position should be graded as to pay and/or salary range to ensure individuals are fairly compensated, commensurate with their job responsibilities and experience, and to ensure limited financial resources are allocated in the most efficient and effective manner.

- C. Complete personnel information for individual employees was not always maintained. Missing information included employment applications, authorizations of initial employment salary rates and salary increases, withholding authorization forms, and employee performance appraisals.

Complete personnel information related to individual employees should be maintained to help ensure payroll expenditures and deductions are handled and accounted for properly.

D. The Human Resources Office is responsible for maintaining the College's employee leave records. A review of the records noted the following exceptions:

- 1) We noted a number of errors during our review, which appear to be caused by employee mistakes. For example, vacation accrual rates were not always adjusted for the employee's length of service. Some leave taken was not recorded at the correct amount on the computerized leave record. We also noted an instance when accrued unused sick leave at termination was not reported to the state properly. In addition, leave recorded on the leave slips did not always agree to the leave recorded on the employees' time sheets. We also noted that an explanation was not always provided for leave marked as "other". As a result, some leave balances did not appear to be correctly stated.
- 2) Documentation for compensatory time earned is maintained by various college offices, instead of being centralized in the Human Resources Office. As a result, documentation to support compensatory time earned was handled inconsistently and was not always adequate to document that the compensatory time was actually earned.

The College should ensure that employees receive adequate training to help ensure the leave accumulation system is maintained accurately. In addition, the documentation for compensatory time earned should be centralized within the Human Resources Office.

E. During our review of terminated employees, we noted the following concerns:

- 1) We noted an employee was underpaid \$648 upon termination in November 1996. This error occurred because the College only paid the employee for unused vacation time, and not for the days worked up to the date of termination. After we brought the situation to the attention of College personnel, the College issued a check for \$648 to the former employee in May 1998.
- 2) We noted the termination date of former employees as recorded in the College's payroll system was not always correct. It appears this problem was caused because 1) the payroll system was not always updated when an employee terminates employment or 2) the proper termination forms were not filed in the individual's personnel file.

In 1998, the Director of Human Resources "cleaned up" personnel files and recorded the date the file was cleaned up as the termination date.

- 3) Three personnel files reviewed did not contain an employment contract and/or a payroll authorization form to document the approved salary at the date of termination. In addition, two personnel files did not contain the final check computation form. As a result, it was not possible to determine if the final payment made to these employees was proper in these instances.
- 4) Sometimes the final check computation form was initially prepared and then verified/approved by the same individual. We also observed one instance where the terminating employee completed her own final check computation form, and the form was not verified/approved by a second individual.
- 5) The College requested the resignation of two employees, for cause in December 1995. However, these employees subsequently received severance pay, totaling \$7,751 and \$1,694. These employees also filed for unemployment benefits, which the College did not contest.

College policy provides that an employee can be suspended or dismissed, without prior written notice, for serious offenses. It does not appear to be a prudent use of public funds to pay severance pay or unemployment benefits to employees who are terminated for cause or who have left employment with the College under unfavorable circumstances.

The lack of proper termination and salary authorization could lead to errors in employee payments. The College should ensure the final check computation form is properly computed, verified, and filed in the employee's personnel file, and supported by adequate documentation. In addition, the computerized payroll files should be updated promptly. Further, the College should consider the appropriateness of paying severance pay or not contesting unemployment benefits for employees who are terminated for cause or left employment with the College under unfavorable circumstances.

- F. College policy requires that a performance appraisal be completed for each employee once a year. Nine of twenty-four personnel files reviewed did not contain a current performance appraisal.

The College should ensure employee performance appraisals are prepared in accordance with established policy. Performance appraisals can lead to improvement of performance and be used to evaluate employees for salary increases, promotion, and other personnel action.

- G. The College's outside employment policy allows employees to engage in other employment or consulting provided that such work does not interfere with the employee's work at the College. Employees who engage in outside employment or consulting must complete a "Secondary Employment Information Form," have it approved by that individual's supervisor, and file the form with the Human Resource Office within thirty days of the start of the other employment. Secondary employment forms are filed in the employee's personnel file.

During our review of this area, we noted one employee also taught six hours at a local community college, but a secondary employment form was not in that

individual's personnel file. Upon further investigation, we determined that the employment contracts with the academic staff provide that only if an employee engages in other employment of twelve or more hours per week is the employee required to obtain written permission before entering into the outside employment.

It appears the College's outside employment policy and employment contracts with the academic staff are in conflict with each other. The College needs to clarify its policy regarding outside employment for at least those employees on the academic staff.

- H. The College has developed numerous policies and procedures to guide faculty and staff in the performance of their duties. It appears that changes to the policies and procedures are not updated on a timely basis and are not distributed to all employees.

The Faculty Personnel Policies and Procedures Manual and the Non-Instructional Staff Personnel Policies and Procedures Manual were last updated in 1991 and 1995, respectively. The Board has updated some of the policies in these handbooks in the last several years.

Maintaining complete policy manuals is important to ensure accurate information is available to employees in an easily accessible form. Manuals should be updated on a timely basis and revisions promptly distributed to all employees.

WE RECOMMEND the College:

- A. Develop written job descriptions for all positions which includes duties, responsibilities, and qualifications.
- B. Consider adopting a pay salary range schedule for both the academic and non-academic staff.
- C. Ensure complete personnel information is maintained for all employees.
- D. Establish training for employees to reduce the errors made in the leave system. In addition, the College should ensure documentation to support compensatory time earned is filed in the Human Resources Office.
- E. Establish checks and balances to ensure the final payment to terminated employees is proper and supported by adequate documentation. In addition, the College should consider the appropriateness of paying severance pay or not contesting unemployment benefits for employees terminated for cause or who have left employment with the College under unfavorable circumstances.
- F. Ensure employees are evaluated annually in accordance with College policy.
- G. Review and revise its outside employment policy, as necessary and ensure it is consistent with the provisions of any employment contracts.
- H. Ensure personnel policies are updated on a timely basis with revisions distributed to all employees.

AUDITEE'S RESPONSE

- A. *The College concurs with the Auditor's findings and recommendation. The College's experienced Director of Human Resources, hired in January 1998, has been charged with the task of developing job descriptions for both academic and non-academic positions.*
- B. *The College concurs with the Auditor's findings and recommendation, to the extent appropriate for institutions of higher education. The College's Director of Human Resources has been charged with the task of developing pay grades and/or salary ranges appropriate to colleges and universities and consistent with the College's governance policies.*
- C-F.
& H. *The College concurs with the Auditor's findings and is in the process of implementing the Auditor's recommendations.*
- G. *The College concurs with the Auditor's findings and recommendation. The College's current policy regarding secondary employment is currently under review by the College's administration.*

10. Food Service Contract

The College has used the services of three different cafeteria food service providers in the last several years. Our review of this situation disclosed following concerns:

- A. The contract for the food service provider in 1996 required the College to reimburse the provider for all costs of operation not covered by sales. In addition, the College was required to pay a fee of \$500 per month. In any month in which sales exceeded all expenses plus the \$500 fee, the excess amount was to be returned to the College. We reviewed a \$10,000 payment to this provider. The invoice appeared to be for several months' losses plus the monthly fee. There was no supporting documentation from the provider substantiating the losses. It appears the College paid the provider pending review and verification of the provider's expenses; however, College personnel could not provide us any documentation to indicate that a subsequent verification of the operating losses was performed.
- B. A second provider handled the food service activity from February to December 1997. The contract included a provision that if the providers' gross sales did not exceed \$16,000 for a given month, the College would reimburse the provider 75 cents for each dollar of shortfall, up to a maximum of \$600. The provider was to furnish the College its operating statements, an accounting of all sales and a copy of sales tax receipts (filed with state). We reviewed two subsidy payments of \$600, and noted the provider did not furnish monthly operating statements and copies of its sales tax reports to support these requests for reimbursement. However, the College paid the amounts requested.

The College terminated its contract with this provider in December 1997 because of unsanitary conditions.

- C. Since January 1998, the College has contracted for food service on a month-to-month basis until the service can be rebid. The current agreement provides the College will pay the provider \$600 per month when sales are less than \$10,000, and the provider will pay the College two and one-half percent of all monthly sales greater than \$10,000. According to College personnel, as of April 1998, the College had not received adequate financial information from this provider. At that time, the College had not made any payments nor had the provider paid any monies to the College.

The College needs to improve its oversight and control over the food service operations. The College should ensure its food service provider complies with the provisions of any agreement entered into and ensure it receives adequate financial information related to the provider's profit or loss on operations. Such information should be reviewed on a timely basis and subsidy payments should not be made unless there is sufficient supporting documentation.

WE RECOMMEND the College improve its control and oversight over the food service operations and ensure any food service provider is required to comply with all contractual provisions. This would include furnishing adequate financial information regarding the profit or loss on operations and making required payments to the College, as applicable. Any financial information received should be reviewed on a timely basis and any subsidy payments should not be made unless there is sufficient supporting documentation.

AUDITEE'S RESPONSE

- A-C. *The College concurs with the Auditor's findings and is in the process of implementing the Auditor's recommendation.*

11. Cellular Phones

For the period July 1, 1997 to December 31, 1997, and for the year ended June 30, 1997, the College expended approximately \$7,700 and \$13,500, respectively, for cellular phone usage. The College has a separate contract for each of its nine cellular phones. The monthly fee for four of the phones is \$145, which includes 500 peak and unlimited off-peak minutes. The monthly fee for the other five phones ranges from \$20 to \$33 per month. During our review of cellular phone usage, we noted the following concerns:

- A. The College has not developed a formal written policy regarding cellular phone usage.
- B. Six of fifteen (40 percent) cellular phone bills reviewed were not supported by adequate documentation. Two of the bills only included a remittance slip to support the payment. The other four bills did not include a detail list of the calls made.

C. The College allows the cellular phones to be used for personal business; however, any additional costs related to this usage is to be reimbursed to the College. A review of this situation disclosed the following concerns:

- 1) Except for the President's bills, there was no indication the bills were reviewed by the individual assigned the phone (to identify personal calls) or reviewed and approved by that employee's supervisor.

We noted several bills included numerous calls to the applicable employee's home phone number. In several instances, over fifty calls were made to the home phone number in a one month period. Calls were also made on weekends and outside the employee's regular work schedule, with some calls made after midnight. While some of these calls may have been for College business, there was no documentation maintained to support this usage.

- 2) According to College personnel, the reimbursement of personal calls on cellular phones is handled by secretaries in the various vice president's offices. The individual who used the phone is to indicate which calls are personal and the secretary calculates the amount due the College. The individual then pays the reimbursement amount at the Cashier's Office.

During our review, a receipt could not be located in the Cashier's office to support a reimbursement in four instances where we were told a reimbursement had been made. In addition, since a detail billing was not available for some bills, we could not determine if reimbursement for any personal calls was made in these instances.

Considering the personal usage of cellular phones does not provide any clear benefit to the College, consideration should be given to prohibiting such use, except in cases of emergency.

D. One phone package provided for 500 free minutes of usage during peak hours. However, we noted charges for this phone routinely exceeded the 500 minutes of free usage during peak hours by a significant amount. Additional peak minutes charged to this phone ranged from 533 to 1,173 minutes per month during four months reviewed, with the additional costs averaging approximately \$200 per month.

The amount of billed peak usage was sometimes more than the monthly fee. If this amount of usage is necessary, the College should consider obtaining a more efficient contract for this individual.

While cellular phones can help increase employee productivity, they are also costly. A formal written policy is needed regarding cellular phones. Such a policy should address which employees need a cellular phone, proper use of the phone, and a review and authorization process. In this policy, the College should consider prohibiting the personal use of the cellular phones, except in cases of emergency. In addition, proper internal controls require that expenditures are reviewed and authorized before payment.

WE RECOMMEND the College develop a formal written policy regarding the use of cellular phones, including a provision prohibiting their use for personal reasons. In addition, phone bills should be reviewed and authorized before payment.

AUDITEE'S RESPONSE

- A. *The College concurs with the Auditor's findings and is in the process of implementing the Auditor's recommendation. It should be noted that the College's actual expenditures for cellular telephones is modest.*
- B. *The College concurs with the Auditor's findings and is in the process of implementing the Auditor's recommendation.*
- C. *The College does not allow cellular telephones to be used for personal business.*
- D. *Note: The College did not provide a separate response for this item.*

12. Fixed Assets

- A. Our review of the College's fixed asset records and related procedures noted the following exceptions:
 - 1) Except for the computer equipment and other fixed assets of the Management Information System (MIS) department, a physical inventory of the general fixed assets of the College has not been performed since 1992. Annual physical inventories are necessary to ensure the accuracy of fixed asset records and to detect the loss, theft, or misuse of assets.
 - 2) The College maintains its detailed fixed asset records in a computer database and obtains the fixed asset additions and deletions from the database to adjust the applicable general ledger accounts and prepare its financial statements. However, the College does not reconcile the total of the detailed information in the data base to its general ledger fixed asset accounts.

The College should reconcile the fixed asset database to the general ledger fixed asset accounts on a periodic basis to help ensure the general ledger accounts are properly stated.
 - 3) Fixed assets acquired through lease-purchase arrangements are not tagged and recorded in the fixed asset database. According to College personnel, the College is in the process of identifying these fixed assets so they can be tagged and recorded in the property records.
 - 4) During our review, we noted that various items were not properly tagged as property of the College. These included donated furniture valued at approximately \$18,000 which was received in September 1997, but not tagged and added to inventory when received. In addition, we noted an instance where the tag number on an item did not agree to the number in the

inventory records and an instance where a piece of equipment was tagged but not included on the inventory records.

Fixed assets represent a significant investment of College funds and should be adequately safeguarded from loss or theft. Fixed asset records provide information needed by the College for financial reporting and control purposes. Failure to maintain accurate fixed asset records or to properly account for fixed assets items increases the likelihood that assets may be lost, stolen or incorrectly valued.

- B. The College allows employees to "check out" various items of equipment for use at their homes. To do this, the applicable employees must complete a check out form, which then must be approved by a supervisor. It appears most of the items checked out represent computer equipment.

During our review, we noted twenty-three laptop computers and eight desk top computers were checked out. Three employees had checked out both a laptop computer and a desk top computer. It appears most of the equipment has been checked out for at least two years, with some instances noted where the check-out dates back to 1994.

The College should periodically review the equipment items checked out. For those items which have been checked out for an extended period of time, the College should ensure there is still a valid reason for the item to be used in this manner.

WE RECOMMEND the College:

- A.1. Conduct a physical inventory of all fixed assets on an annual basis and reconcile the results of the inventory to the detailed property records.
2. Reconcile the fixed assets database to the applicable general ledger accounts on a periodic basis.
- 3&4. Ensure all fixed assets are properly tagged and recorded on the detailed property records, including all fixed assets acquired through a lease-purchase agreement.
- B. Review the equipment items currently checked out and for those that have been checked out for an extended period of time, ensure there is still a valid reason for these College assets to be used in this manner.

AUDITEE'S RESPONSE

- A. *The College concurs with the Auditor's findings and is in the process of implementing the Auditor's recommendation. In addition, a physical inventory was conducted and reconciled on all fixed assets for the period ending June 30, 1998.*
- B. *The College concurs with the Auditor's findings and is in the process of implementing the Auditor's recommendation. As further explanation, it should be noted that the College's computer professionals are on call since the College does not have a multi-shift staff. These employees are, therefore, required to keep a laptop computer with them for remote access.*

In a few cases, the volume of work done at home by employees who work in excess of 40 hours per week is supported by a desktop computer. In addition, a number of laptop computers were provided by grant funds specifically to be checked out and used on a rotating period by faculty members working on research or other special projects. The Vice President for Institutional Support and Enrollment Management reviews all checkout forms to ensure that current needs are being served. Annually, this Vice President reviews, for inventory purposes, all equipment that has been checked out.

This report is intended for the information of the management of Harris-Stowe State College and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

STATISTICAL SECTION

History, Organization, and Statistical Information

HARRIS-STOWE STATE COLLEGE HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

Harris-Stowe State College, located in St. Louis, Missouri, traces its origin back to 1857, when it was founded by the St. Louis Public Schools as a normal school. This school was the first public teacher education institution west of the Mississippi River and the twelfth such institution in the United States. This normal school was established for white students only, and the school was later named Harris Teachers College in honor of William Torrey Harris who had been a Superintendent of Instruction in the St. Louis Public Schools and also a United States Commissioner of Education.

A second predecessor institution was established in 1890 as a normal school for future black teachers of elementary schools in the city of St. Louis and was an extension of Sumner High School. In 1929, its name was changed to Stowe Teachers College, in honor of the abolitionist and novelist, Harriet Beecher Stowe.

These two teacher education institutions were merged by the Board of Education of the St. Louis Public Schools in 1954, as the first of several steps to integrate the public schools of St. Louis. In 1979, the General Assembly of the State of Missouri enacted a bill under which Harris-Stowe State College became a member of the State system of public higher education. The College offered three separate teacher education majors; early childhood education, elementary school education, and middle school/junior high school education. In 1981, the College received approval for a new degree program, a Bachelor of Science in Urban Education.

In 1993, the State authorized the College to expand its mission to address unmet needs of metropolitan St. Louis in various applied professional disciplines. The College developed two new baccalaureate degree programs: (1) Business Administration with professional options in Accounting, Management Information Systems, General Business, and Marketing, and (2) Secondary Teacher Education with subject-matter options in Biology, English, Mathematics, and Social Studies. The College is currently developing new baccalaureate programs in other professional areas, including Criminal Justice and Management of Health and Medical Services.

In November 1996, the city of St. Louis transferred title to approximately eighteen acres of the former Laclede Town site to the College. On this property, the College plans a \$30 million expansion of its campus with the construction of six new buildings. Currently, a new library/classroom and technology resource center is under construction, with a completion date scheduled in the fall of 1998.

In the fall of 1997 and 1996, the College's full-time equivalent student enrollment was 1,103 and 1,095, respectively.

Harris-Stowe State College is governed by a six-member Board of Regents appointed by the Governor and confirmed by the Senate. Regents are appointed to six-year terms. A student member, with non-voting privileges, also serves on the Board.

The Board of Regents as of December 31, 1997, consisted of the following members:

<u>Name</u>	<u>Position</u>	<u>Term Ends</u>
Wayman F. Smith III	Chairperson	July 28, 2000
William G. Gillespie	Member	July 28, 1998
Charlene L. Jones	Member	July 28, 1996 *
John W. Sisco	Member	July 28, 2000
Carol B. Walker	Member	August 28, 2002
Donald L. Wolff	Member	July 28, 1998
Andre' L. May	Student Representative	January 1, 2000

* This regent will serve on the board until replaced by the Governor.

The Board of Regents appoints a President to serve as the College's Chief Executive Officer. Three Vice Presidents have been appointed to oversee Academic and Student Affairs, Business and Financial Affairs, and Institutional Support and Enrollment Management. The following schedule lists the annual compensation reported for the College officials and administrative staff as of December 31, 1997:

<u>Name</u>	<u>Position</u>	<u>Base Salary</u>	
Henry Givens, Jr.	President	\$ 135,000	(1)
Patricia Nichols	Vice President of Academic and Student Affairs	91,011	
Rochelle Tilghman	Interim Vice President of Business and Financial Affairs	70,000	(2)
James Gorham, Jr.	Vice President of Institutional Support and Enrollment Management	91,011	
Vacant	Comptroller	N/A	

- (1) In addition to the base salary, the President's contract provides for the President to be paid \$45,000 a year for an annuity and \$45,000 a year for a housing allowance. The College also provides the President an automobile, life insurance, family medical coverage, and long-term care coverage.
- (2) Rochelle Tilghman was appointed interim Vice President of Business and Financial Affairs in July 1997. Prior to July 1997, she served as Comptroller at an annual salary of \$54,900. She was appointed Vice President of Business and Financial Affairs in April 1998, at an annual salary of \$80,000. The position of Comptroller has been vacant since July 1997.

In addition, to the appointed officials noted above, the College contracts with George Hiram to serve as the College's Executive Institutional Consultant. On the President's instructions, Dr. Hiram reviews various administrative, academic, student services, and business operations of the College and offers advice and suggestions. His current contract provides for a maximum of seventy-six hours of service per month, at a cost of \$3,618 per month.

Also, in August 1997, the College contracted with McKinley Jones and Associates, Certified Public Accountants, to provide comptroller services for the period of one year. The contract provides that a partner in the firm, Quintin Davis, will be at the College for a minimum of thirty to thirty-five hours per week, at a cost of \$29 per hour.

An organization chart follows.

SPECIAL REVIEW OF HARRIS-STOWE STATE COLLEGE
 ORGNIZATION CHART
 DECEMBER 31, 1997

